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SIPDIS

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SUBJECT: MERCOSUL AGREES TO TRADE NEGOTIATIONS WITH CUBA,  
BUT GOB SAYS TALKS AT PRELIMINARY STAGE

SENSITIVE BUT UNCLASSIFIED

1. (SBU) Summary. During a summit held in Asuncion, Paraguay on June 20, Mercosul leaders announced their decision to initiate trade talks with Cuba. According to Brazil's Foreign Ministry, a decision has not yet been made on the type of final agreement to be negotiated. Depending on the nature of the final agreement, Cuba could become an associate member of Mercosul. End Summary.
2. (SBU) A brief, single line in Mercosul's joint communique from its June 20 summit in Asuncion, Paraguay, announced the bloc's decision "to initiate a process for negotiating with Cuba with the view to signing a free trade agreement within the ALADI framework." The Mercosul bloc has been considering trade negotiations with Cuba for some time. According to Gilberto Siqueira, Deputy in the Foreign Ministry's Regional Integration Division under the South American Under-Secretariat, Mercosul decided to move forward on the talks now because of the bloc's positive trade relations with Cuba. In 2003, two-way trade between the Mercosul bloc and Cuba was on the order of only \$120 million, about 80 percent reflecting Brazil-Cuba trade. However, in 2004 trade between Brazil and Cuba grew by 93 percent with strong growth in both directions; Brazil's imports from the island totaled \$45 million in 2004 and its exports to Cuba reached \$132 million.
3. (SBU) Now that the political decision has been made, Siqueira said preliminary technical discussions, which he characterized as exploratory, can proceed. Although the communique mentioned a "free trade agreement" as the objective, a decision on the form and substance of the agreement will depend on the outcome of the technical talks. According to Siqueira, no decision has been made yet on the scope or depth of a final agreement, which could range from an Economic Complementary Agreement that provides limited concessions in the form of tariff preferences on a small universe of products, to a free trade agreement along the line of those negotiated to obtain Mercosul associate membership, as the Andean countries concluded in 2004.
4. (SBU) Should the decision be made to negotiate the latter, Cuba could become an associate member of Mercosul. In addition to any trade concessions it might negotiate, associate membership would provide Cuba with the ability to readily consult with Mercosul members, although associate membership does not necessarily provide the right to joint the bloc for the purpose of trade negotiations.
5. (U) Post will continue to report on this issue as we learn more about the GoB's intended course of action.  
Danilovich